



COMMISSION OF THE EUROPEAN COMMUNITIES

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**ANNUAL REPORT FROM THE COMMISSION TO THE COUNCIL,
THE EUROPEAN PARLIAMENT, THE ECONOMIC AND SOCIAL COMMITTEE
AND THE COMMITTEE OF THE REGIONS**

THE EUROPEAN ECONOMIC AREA FINANCIAL MECHANISM

I. The Financial Mechanism

With the objective of stimulating economic cohesion and development between the European Economic Area (EEA) regions, a Financial Mechanism to support development projects in Greece, Ireland, Northern Ireland, Portugal and parts of Spain (the objective 1 regions as defined in 1988) was established on 1st January 1994 (article 115-116 of the EEA Agreement and Protocol 38).

Over its five-year life-span, ending 31 December 1998, the Financial Mechanism will allocate funds to the beneficiary regions of ECU 500 million in grant aid and interest rebates of 2 % per annum (available for 10 years with a grace period of 2 years) on ECU 1.5 billion in loans, from the European Investment Bank (EIB).

Priority should be given to projects which place particular emphasis on the environment (including urban development), on transport (including transport infrastructure) or on education and training. Among projects submitted by private undertakings, special consideration is given to small and medium-sized enterprises.

The Mechanism is **administered by the EIB**. The EIB appraises each project according to financial, economic and technical criteria as well as its compatibility with the EU objectives sectorial policies and environmental regulations and standards.

The EIB then submits proposals to the Financial Mechanism Committee, appointed by the participating EFTA States and the Commission, which decides on the allocation of the financial resources available under the Mechanism.

The Mechanism was **initially funded** by the participating EFTA States. The role of the Commission was to give an opinion on the basis of the proposals before the approval of the EFTA Financial Mechanism Committee.

From **1 January 1995**, following the accession of the Republic of Austria, the Republic of Finland and the Kingdom of Sweden to the European Union, Articles 83, 111 and 136 of the act concerning the conditions of this accession and the modification to the treaties on which the European Union is founded provide that the obligations of the three acceding countries for financing the Mechanism as laid down in article 116 of the EEA Agreement is financed out of the general budget of the European Communities.

In consequence, the Commission has become co-responsible for the Mechanism in line with Art. 205 of the Treaty whereby the Commission shall implement the budget. The Communication by the Commission adopted on the 30 march 1995 (C(95) 753), established the operational aspects for dealing with the Financial Mechanism within the Commission.

Following entry into force of the EEA Agreement for the Principality of Liechtenstein on 1 May 1995, the Principality now fully participates in the Mechanism.

II. The second annual report

A first annual report was presented by the Commission to the Council in June 1995, concerning the activity of the Mechanism during the period from 01.01.94 to 31.05.1995.

This second annual report presents the activity concerning the Mechanism during the period from 01.01.95 to 30.06.96.

1. The activity of the Mechanism up to 30.06.1996

Since the creation of the Mechanism up to 30.06.96 the Financial Mechanism Committee has approved grant applications to a total of ECU 148.2 million and interest rebates on a total loan portfolio of ECU 548.9 million as follows :

	APPROVED GRANTS	APPROVED LOANS
Greece	22.6	42.9
Ireland		-
Northern Ireland	8.0	-
Portugal	25.5	127.7
Spain	92.1	378.3
TOTAL	148.2	548.9

Grant approved (in MECU)

	Greece	Ireland	N. Ireland	Portugal	Spain	Total
Transport	12.1		8.0	25.5		45.6
Environment	8.3				46.7	55.0
Education	1.1				45.4	46.5
Other	1.1					1.1
	22.6		8.0	25.5	92.1	148.2

Loan approved (in MECU)

	Greece	Ireland	N. Ireland	Portugal	Spain	Total
Transport	42.9			127.7	164.1	334.7
Environment					214.2	214.2
Education						
	42.9			127.7	378.3	548.9

The activity in 1995

In 1995, the following **grant applications**, amounting up to ECU 68 07 million, were approved:

The monasteries in the Athos area in Greece : Grants for the restoration and extension of monastery buildings, at the Iviron monastery ECU 3.684 million and the Simonos Petras monastery ECU 0.89 million; for the development of a diagnostic centre for the study of Byzantine and post Byzantine religious paintings and restructuring of two interior courtyards at the Ormylia monastery ECU 1.745 million; and for the stabilisation of rock foundations at the Stavronikita monastery ECU 1.833 million. The realisation of the projects will contribute to the preservation of a unique cultural monument and will enable the development of the region's tourism potential and its diversification towards up-market cultural tourism.

The Santorini waste water treatment plant project in Greece : For the preparation of a revised, least-cost investment proposal, a grant of 50 000 ECU. Economic benefits are expected in terms of environmental improvements with a consequent effect on tourist inflows.

The Tzivlos hydroelectric power plant project in Greece : For the construction of a 2.5 MW hydroelectric plant on the Peloponesos, a grant of 1.071 million. The project contributes to the development of a local energy resource resulting in a reduction of Greece's dependence on external sources of supply.

The Piraeus port project in Greece : For handling equipment for the Ikonion II container terminal, a grant of ECU 12.1 million. The project will improve the efficiency of port operations with economic benefits for Greece which presently uses maritime transport for more than 90% of its international trade.

The Puertos marine monitoring project in Spain : For the extension of a marine monitoring and surveillance network in the Spanish waters along the coasts of Asturias, Galicia, Andalucia and the Canary Islands, a grant of ECU 4.7 million. Its main economic benefits can be resumed to lessening the likelihood of accidents in the major shipping routes, reducing the impact of oil spills and allowing for better protection of coastal areas which will help to avoid possible hazards for tourism and fisheries activities.

The Vigo urban renewal project in Spain : For the remodelling of the sea-front area, a grant of ECU 19.5 million. The project is a second stage in an overall urban regeneration program in Vigo for improving the quality of life for the citizens and more generally improve the attractiveness of the city.

The Gandia urban renewal project in Spain : For the rehabilitation of the sea-front area and historic centre, a grant of ECU 22.5 million. The project aims to improve the urban and natural tourist environment of the city.

In 1995, the following **interest rebate applications**, amounting up to a total loan amount of ECU 302.4 million were approved:

The Galicia road infrastructure project in Spain : For the construction of two motorway sections and upgrading of regional road sections, an interest rebate for a loan amount of ECU 19.5 million; and the *Galicia toll motorway project in Spain* : For the construction of three sections of toll motorways, an interest rebate for a loan of ECU 32 million.

Both projects will contribute to improving the traffic conditions in Galicia, a region which is lacking of motorway infrastructure.

The Andaluacia reforestation project in Spain : For the reforestation project, including nurseries, regeneration of degraded forestry areas, construction and rehabilitation of forest roads, works to reduce erosion and strengthening of forest fire fighting capacity, an interest rebate for a loan of ECU 32 million. The project clearly contributes to the protection of environment.

The ICO environmental global loan project in Spain : For an EIB global loan for the Spanish state credit agency and development bank Instituto de Crédito Oficial for the financing of private and public sector, small and medium sized environmental projects located in the eligible regions in Spain, an interest rebate for a loan of ECU 64 million; and

the BCL environmental global loan project in Spain : For an EIB global loan for the Spanish Banco de Crédito Local for the financing and environmental projects located in the eligible regions of Spain, an interest rebate for a loan amount of ECU 32 million.

Both projects will contribute to the protection of the environment and the reduction of the pollution in areas of Spain.

The RENFE rail project in Spain : For the partial financing of rolling stock and infrastructure improvement investments for the Spanish commuter railway networks and intercity lines, an interest rebate for a loan of ECU 60 million. The project will benefit existing users and attract new clients, thereby contributing to achieve reductions in car traffic congestion, with the accompanying environmental improvements.

The Extremadura road improvement and drinking water supply facilities project in Spain : For the financing of fifteen water supply schemes in the provinces of Badajoz and Cáceres and seventeen small road improvement schemes, an interest rebate for a loan of ECU 20 million. The improvements to water supply infrastructure are expected to have a positive effect on the environment (better quality supply) and investments in the basic road network should enhance the conditions for the development of the region of Extremadura.

The Piraeus port project in Greece : For the construction of and handling equipment for the Ikonion II container terminal, an interest rebate for a loan of ECU 42.9 million. The project will improve the efficiency of port operations with economic benefits for Greece which presently uses maritime transport for more than 90% of its international trade.

The activity in 1996 (up to 30.06.96)

Only one **grant application** concerning the *Ballycastle/Rathlin Island harbours* in Northern Ireland, ECU 8 million for improvements to the two harbours. The benefits of the project will include the amelioration of access to the region and the development of tourism in Northern Ireland.

The following **interest rebate applications** amounting up to a total loan amount of ECU 68.5 million were approved

ENA Galicia 2-toll motorways : the construction and operation of two sections of toll motorways in the provinces of La Coruña and Pontevedra, an interest rebate for a loan of ECU 32 million. The project will contribute to improving the traffic conditions in Galicia, a region which lacks an adequate motorway infrastructure.

Water supply & forestry schemes in the region of Castilla y León : the contribution to the financing of an investment programme in water supply infrastructure and forestry, an interest rebate for a loan of ECU 20 million. The programme will contribute to regular and reliable provision of potable water to towns and will support economic activities. Forestry projects will contribute to the safeguard and expansion of the region's forest resources.

Waste water treatment and road schemes in Murcia : the contribution of financing of investments in waste water treatment infrastructure and roads, an interest rebate for a loan of ECU 16,5 million. The project contributes to the extension and upgrading of the waste water treatment infrastructure in the region of Murcia according to modern standards i.e. in line with EC directives as well as environmentally more demanding tourism activities.

2. The Community contribution

The Act of Accession (Articles 83, 111, 136) specifies that the shares of the new Member States in the Mechanism are to be met from the general budget of the Communities. On a proposal from the Commission (COM(94) 398), the financial perspective has already been reworked accordingly by adding a new heading under "Structural Activities". The budgets adopted for 1995 and 1996 contain a heading with the relevant comments (B2-401). The amount forecast for each year is ECU 108 million.

As far as the actual payments are concerned, taking over the shares of the new Member States means complying with the terms of Article 4A of the

Cooperation Agreement between the EFTA countries and the EIB dated 30 June 1992, as amended by the amending protocol of 18 June 1993.

In line with these procedures, the contributions for 1995 and 1996 and the shares between the participating EFTA countries and the Commission were decided respectively by the Financial Mechanism Committee, on 19.12.94 and on 20.12.95. These contributions were calculated in accordance with the gross national product at market prices using data for the last three calendar years and assuming a total annual contribution from the Community and the EFTA States of ECU 110 million.

In consequence, the amount paid by the Commission out of the Community budget in 1995 is 89 793 000 and in 1996, is ECU 87 076 000. These amounts are much below the ECU 108 million forecast each calendar year in the Community budget. The amount which has not been transferred from the Community budget to the EIB account cannot be transferred at a later stage.

The credit outstanding on the Mechanism account at the EIB, which has not been used yet due to the slow progress in the activity of the Mechanism, bears interest at a monthly rate. Even though all the contributions have not been used it is important to keep a reasonable contribution to the Mechanism account each year in order to be able to match the future final obligations at the end of 1998.

Cost sharing of the initial funding and replenishment of the Financial Mechanism:

in MECU

	Iceland	Norway	Liechtenstein	Community budget from 1995			Total
				Austria	Finland	Sweden	
1994	1.078	18.436	0.187	29.348	20.526	40.425	110
	(0.98 %)	(16.76 %)	(0.17 %)	(26.68 %)	(18.66 %)	(36.75 %)	
				Total: (82.09 %)			
1995	1.111	19.063	0.198	89.628 ¹			110
	(1.01 %)	(17.33 %)	(0.18 %)	(81.48 %)			
1996	1.122	21.604	0.198	87.076			110
	(1.02 %)	(19.64 %)	(0.18 %)	(79.16 %)			
Total	3.311	59.103	0.583	267.003			330

¹ The Commission did not request a transfer of Liechtenstein's reimbursement in August 1995. Accordingly, this amount was deducted from the third instalment in 1996.

3. The Mechanism account at the EIB

As of 31 December 1995, the balance of the Financial Mechanism account was ECU 212 923 519. In summary, the account transactions during the year 1995 were as follows:

<i>Balance as of 31 December 1994</i>	113 665 937
<i>Crediting</i>	
Second instalment in 1995	110 000 000
Accrued interest in 1995	10 842 555
Liechtenstein's reimbursement ²	405 236
<i>Debiting</i>	
Interest subsidies	- 7 964 055
Grant disbursements ³	- 13 789 898
Transfer of Liechtenstein's reimbursement ⁴	- 236 256
<i>Balance as of 31 December 1995</i>	212 923 519

As of 30 June 1996, the balance of the Financial Mechanism account was ECU 302 326 080. In summary, the account transactions up to 30.06.96 have been the following:

<i>Balance as of 31 December 1995</i>	212 923 519
<i>Crediting</i>	
Third instalment in 1996 ⁵	110 000 000
	- 4 183
Accrued interest up to 30.06.96	6 203 935
<i>Debiting</i>	
Interest subsidies	- 9 286 183
Grant disbursements	- 17 511 007
<i>Balance as of 30 June 1996</i>	302 326 080

² Following entry into force of the EEA Agreement for Liechtenstein on 1 May 1995, the Principality reimbursed Austria, Finland, Iceland, Norway, Sweden and the Commission the amounts advanced by them to cover Liechtenstein's share of the Mechanism in 1994-1995, i.e. ECU 405 236.

For Austria, Finland, Norway and Sweden, the relevant amounts (in total ECU 236 256) were transferred, whereas the Commission's and Iceland's shares are kept on the Financial Mechanism account, to be deducted from the third instalment in 1996.

³ The grant disbursement amount comprises the actual grant disbursement increased by 0.5% of such amount as administrative cost for the EIB.

⁴ For Austria, Finland, Norway and Sweden, the relevant amounts (in total ECU 236 256) were transferred, whereas the Commission's and Iceland's shares are kept on the Financial Mechanism account, to be deducted from the third instalment in 1996.

⁵ Iceland did not request a transfer of Liechtenstein's reimbursement in August 1995. Accordingly, Iceland has deducted 4 183 ECU from its payment.

4. Coordination and complementarity with other financial instruments of the European Union.

The Commission ensures, within the framework of the partnership, coordination and consistency between the projects carried out under the Financial Mechanism and measures undertaken by the Structural Funds, the Cohesion Fund, the European Investment Bank and the other financial instruments of the European Union.

In that respect, operating rules concerning the combination and overlapping of the Financial Mechanism aid with other Community assistance, have been clearly defined in the "Operational arrangements" concluded between the Commission and the European Investment Bank, on 9 March 1994.

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